

**CENTRAL INTELLIGENCE AGENCY**  
WASHINGTON, D.C. 20505

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MEMORANDUM FOR: Dr. Stephen D. Bryen  
Deputy Assistant Secretary  
International Economic, Trade  
and Security Policy  
Department of Defense

SUBJECT : NATO Country Economic Summaries [redacted]

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Attached are the NATO Country Economic Summaries requested by 8 November  
in your 20 October action memorandum. If you have any further questions or if  
we can be of further assistance, please call [redacted]

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[redacted]  
Director  
European Analysis

Attachment:  
as stated

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CANADA: GENERAL ECONOMIC DATA

Population (1981) 24.21 Million GDP Purchaser's Value/Capita: \$11,722

Total Output (Billion \$US 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	224.3	250.3	285.9	309.3
GDP (Constant Prices - % Change by Year)	2.9	0.5	3.1	-2.9
Cost-of-Living Index (1975 = 100)	138	152	171	190

Canada's economy turned sharply downward in first-half 1982. Consumer spending has been cut by rising unemployment and the erosion of high nominal wage gains by persistent high inflation. Changes in the tax structure and lagging profit levels are constraining investment, especially in the construction and energy sectors. Manufacturing is currently operating at only 68 percent of capacity, down over 14 percent from a year earlier. As a result, GNP is expected to fall 2.9 percent in 1982.

Inflation continues as the major concern of Prime Minister Trudeau despite rising unemployment. The June 1982 budget introduced a wage cap for federal employees of 6 percent in 1982 and 5 percent in 1983, but other government spending went relatively untouched. The provinces and private sector have responded to the federal program with wage restraints of their own. Increases in unemployment insurance payments and the impact of soft energy markets on government revenues will push the 1982-83 FY budget deficit above 17 billion. Inflation will remain at nearly 11 percent in 1982. Unemployment, which now stands at over 12 percent, will average 11 percent for the year and is probably 1 to 1.5 percent higher than claimed due to discouraged workers who have dropped out of the labor force.

The current account is one of the few bright spots in an otherwise depressing economic picture. Merchandise imports have dropped sharply because of weak domestic demand while exports have held up surprisingly well, probably due to the weakened Canadian dollar. The balance in services continues to deteriorate, however, and will partly offset gains in merchandise trade. Overall, the current account deficit will improve from \$5.7 billion in 1981 to \$2.1 billion this year. Downward pressure on the Canadian dollar is moderating at yearend as US interest rates fall.

Trade and Payments (Billion \$US, BOP Basis)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	65.9	77.8	83.0	78.1
Imports of Goods and Services	70.7	79.8	88.7	80.8
Balance of Goods and Services	-4.8	-2.0	-5.7	-2.7
Current Account Balance	-4.2	-0.9	-4.5	-2.1
Long-Term Capital	1.1	0.6	0.9	1.5
Total Reserves Minus Gold (Yearend)	2.9	3.1	3.5	3.3

\* Projected

UNITED KINGDOM: GENERAL ECONOMIC DATA

Population (1981) 55.83 Million GDP Purchaser's Value/Capita: \$9,044

Total Output (Billion \$US 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	390.0	456.7	504.9**	557.0
GDP (Constant Prices - % Change by Year)	1.4	-1.8	-1.9**	1.1
Cost-of-Living Index (1975 = 100)	166	196	219	238

Despite some signs of an upturn, the United Kingdom will experience real growth of only 1.1 percent this year after an estimated 1.9 percent decline in 1981. Sluggish foreign demand, the impact of low profit levels on business investment, and cutbacks in consumption spending will postpone a recovery at least until 1983. Growth will come mainly from a rebuilding of inventories -- after 2 years of drawdowns -- and increased net foreign demand. New records in unemployment, however, continue to be set; the number of unemployed is now above 3 million -- 12.8 percent of the workforce. Massive social welfare transfers have alleviated some of the hardship, but unemployment will be a major issue in the next election which may be held as early as 1983. 25X1

The reduction in the government deficit in FY 1981-82 may prove short-lived as spending and receipts again move in opposite directions this year. Failing nationalized industries will add substantially to government borrowing as will expenditures to replace the equipment used in the Falklands. Higher unemployment compensation and supplementary benefits will also be a factor. Revenues will remain depressed because of reductions in real wages and the profits squeeze on British companies. On the bright side, interest rates should decline further by yearend as inflation continues to moderate. From a peak of 22 percent in May 1980 inflation is now down close to seven percent. 25X1

The trade and current account balances will weaken this year and turn to deficit in 1983 after strong surpluses in 1980 and 1981. Soft oil markets will hurt oil and gas revenues while economic recovery boosts imports relative to exports. Despite substantial gains in productivity and reduced wage pressures, Britain will continue to lose its world market share, especially in manufacturing. 25X1

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	134.0	166.8	156.9	151.1
Imports of Goods and Services	129.9	155.0	140.4	140.8
Balance of Goods and Services	4.1	11.8	16.5	10.3
Current Account Balance	-0.7	6.8	12.7	6.5
Long-Term Capital	-5.8	-11.3	-19.6	-15.8
Total Reserves Minus Gold (Yearend)	19.7	20.7	15.2	14.1

\* Projected  
\*\* Estimated

WEST GERMANY: GENERAL ECONOMIC DATA

Population (1982): 61.7 Million      GDP Purchaser's Value/Capita: \$11,136

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	616.8	658.8	687.1	715
GDP (Constant Prices - % Change by Year)	4.5	1.8	-0.3	-1.0
Cost-of-Living Index (1975 = 100)	116	122	129	135

West Germany shows no signs of breaking out of the economic slump that began in early 1980. Real GNP is expected to register a decline of 1 percent in 1982 after a 0.3 percent dip last year and growth in 1983 is unlikely to exceed 1 percent. Domestic demand is stagnant and foreign orders -- one of the bright spots during the slump thus far -- have begun to tail off. 25X1

The most serious casualty of the long period of stagnation has been unemployment, with over 1.9 million (6.9 percent) out of work -- a 30-year high. Furthermore, unemployment will continue to rise through 1983 because of rapid labor force growth and sluggish demand. 25X1

Inflation will fall below 5 percent for 1982 with prospects even better for next year, in part because of reduced labor cost pressures. The current account appears headed for a small surplus in 1982 after three years of record deficits. Export growth is outstripping lagging imports while the deficit in services and transfers is up only slightly. 25X1

The new government, led by Helmut Kohl, that took office 1 October 1982 wants to reduce the role of government and encourage private enterprise. In an effort to rein in outsized federal budget deficits, the government announced a package of tax hikes and social welfare cuts coupled with incentives to industry and the housing sector. 25X1

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	209.4	237.4	219.5	240
Imports of Goods and Services	205.0	241.5	214.5	225
Balance on Goods and Services	4.4	-4.2	5.0	15
Current Account Balance	-6.2	-15.8	-7.3	2
Long-Term Capital	5.9	3.6	4.2	-8
Total Reserves Minus Gold (yearend)	52.5	48.0	43.7	40

\* Projected

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FRANCE: GENERAL ECONOMIC DATA

Population (1982): 54.03 Million GDP Purchaser's Value/Capita: \$12,023

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Price)	448.9	507.4	568.3	649.6
GDP (Constant Prices - % Change by Year)	3.5	1.3	0.3	1.2
Cost-of-Living Index (1975 = 100)	145	164	186	207

With an eye on the municipal elections next March, the Mitterrand government has begun to set its economic house in order. The austerity program announced last June -- with cutbacks in social expenditures and a four-month price/wage freeze -- has heightened the tension between the Socialists and their Communist partners. Prospects for the coalition's survival much after the municipal elections are not good.

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The government's current restrictive policy is aimed primarily at limiting the budget deficit to 3 percent of GDP and slowing down inflation. Plans call for reducing social benefits generally and deferring benefits already authorized, as well as increasing tax rates and social security and unemployment fund contributions. The price/wage freeze which ended on 31 October and the present guidelines -- intended to limit wage increases to next year's targeted 8 percent inflation rate -- are aimed at reducing inflationary expectations. Price increases are expected to slow from last year's 13.4 percent to 11 percent this year. Slippage in next year's 8 percent target is likely. Real growth will shrink from the original 3 percent target to about 1.2 percent this year and 1.4 percent in 1983. Unemployment is expected to reach 9.5 percent by the end of 1982 and continue to rise to at least 10.5 percent in 1983. While the government is creating new jobs in the public sector, slow growth and productivity increases have cut into the ability of industry to absorb a growing workforce.

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The trade balance has continued to deteriorate, largely because of soaring import prices. As a result, Paris has fortified foreign exchange reserves with a \$4 billion loan to ward off pressure on the franc. The expected pickup in world demand next year should boost exports while imports likely will be restrained by the government's deflationary policies.

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<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	151.8	161.0	159.1	141.6
Imports of Goods and Services	146.6	164.7	162.1	148.7
Balance of Goods and Services	5.1	-3.7	-3.0	-7.1
Current Account Balance	1.2	-7.9	-7.2	-11.0
Long-Term Capital	-5.4	-8.4	-8.0	NA
Total Reserves Minus Gold	17.6	27.3	22.3	19.9

\* Projected

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ITALY: GENERAL ECONOMIC DATA

Population (1981): 57.02 Million    GDP Purchaser's Value/Capita: \$6120

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	237.7	298.2	350.2	415.0
GDP (Constant Prices - % Change by Year)	4.9	3.9	-0.2	1.0
Cost-of-Living Index (1975 = 100)	176	213	251	292

1982 will be remembered in Italy -- as elsewhere in Western Europe -- as a disappointing year for the economy. 25X1  
ISCO, a quasi-official agency, now foresees a 1.0-percent rise in GDP this year, only half what it was predicting in March. Moreover, hopes for a \$5 billion improvement in the current account balance have been dashed because increased outlays for debt servicing have offset a significant narrowing of the trade deficit. Finally, inflation has not declined enough for the government to realize its 16-percent goal.

Depending on whether one listens to the IMF or the Italian budget minister, the economy's prospects in 1983 range from fair to dreadful. 25X1  
Although pessimistic about Italy's ability to rein in inflation, the IMF in September predicted healthy economic growth -- 3.3 percent -- next year. The budget minister argues that, without strict fiscal austerity, the country faces not only rising inflation but also a widening current account deficit and sluggish growth of 1.5 percent.

Besides trying to cope with macroeconomic problems, Prime Minister Spadolini must contend with potentially explosive labor issues. 25X1  
On 1 June, a powerful employers' association indicated it would not renew the existing generous wage indexation scheme when it lapses in January 1983. Other employers' associations quickly followed suit. Additionally, these groups by and large have refused to start triennial contract talks.

<u>Trade and Payments (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	95.1	105.0	100.4	105.0
Imports of Goods and Services	90.1	116.0	109.8	110.8
Balance of Goods and Services	5.0	-11.0	-9.4	-5.8
Current Account Balance	5.4	-9.8	-8.7	-5.0
Long-Term Capital	-1.0	3.6	8.7	6.0
Total Reserves Minus Gold (yearend)	18.2	23.1	20.1	17.0

\* Projected

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NETHERLANDS: GENERAL ECONOMIC DATA

Population (1981) 14.24 Million

GDP Purchaser's Value/Capita: \$9,796

Total Output (Billion \$US 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	126.2	133.6	139.5	149.4
GDP (Constant Prices - % Change by Year)	1.8	0.7	-1.1	0
Cost-of-Living Index (1975 = 100)	126	134	143	153

Real Dutch GNP will show no growth in 1982 after a decline of 1.1 percent in 1981. Industrial production may fall slightly this year, the fourth straight year of decline. Because of slumping profits investment should be down a further 0.5 percent after dropping sharply in 1981. Meanwhile, wage restraint and rising unemployment will reduce consumer spending by 2 percent. Unemployment has grown to more than 12 percent of the labor force from 5.8 percent in 1980. 25X1

Budgetary problems continue to plague Dutch governments. The draft 1982 budget, presented by the outgoing coalition in September 1981, called for substantial reductions in social spending in order to reduce the deficit. The center-left coalition which replaced it was unable to cut the deficit, reduce unemployment, stabilize taxes, and maintain purchasing power at the same time. The newly elected center-right government faces a deficit equal to 10 to 11 percent of net national income, far above the 6.5 percent target and the 8.3 percent level of last year. 25X1

The current account moved strongly into surplus in 1981 and should gain further in 1982. Exports have been aided by lower wage settlements and the declining value of the guilder, offsetting reduced earnings from gas sales. Declines in real disposable income will result in shrinking imports of household goods and tourist expenditures abroad which, together with further improvement in the terms of trade, will push up the surplus on current account. 25X1

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	80.9	95.8	91.2	95.3
Imports of Goods and Services	82.2	97.4	86.6	87.9
Balance of Goods and Services	-1.3	-1.6	4.7	7.4
Current Account Balance	-2.1	-2.8	3.2	6.0
Long-Term Capital	-1.8	0	-2.3	-4.3
Total Reserves Minus Gold (Yearend)	7.6	11.6	9.3	8.8

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\* Projected

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BELGIUM-LUXEMBOURG: GENERAL ECONOMIC DATABELGIUM

Population (1981): 9.86 Million

GDP Purchaser's Value/Capita: \$9,655

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	87.8	93.8	96.0**	104.3
GDP (Constant Prices - % Change by Year)	1.9	2.0	-1.3**	0.1
Cost-of-Living Index (1975 = 100)	128	136	147	161

LUXEMBOURG

Population (1981): 0.37 Million

GDP Purchaser's Value/Capita: \$10,270

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	3.4	3.6	3.8**	4.2
GDP (Constant Prices - % Change by Year)	4.2	0.6	-2.0**	0.8
Cost-of-Living Index (1975 = 100)	126	134	145	159

Belgium's economic performance has deteriorated steadily since the mid-1970s largely because of surging wages, higher energy prices, and structural difficulties. Unemployment, inflation, government deficits and real economic growth all worsened in 1981. Automatic wage indexation and the inability of the government to reach a consensus leave little room for maneuver although the budget deficit will improve in 1982 due to a mid-year package of spending cuts and tax increases. Real GDP will be flat following a 1.3 percent decline last year while unemployment and inflation remain high. <sup>25X1</sup>

The March 1982 devaluation of the Belgium franc by 8.5 percent against other EMS currencies has helped to improve Belgian competitiveness and profitability. Devaluation and spending restraint may not be enough however because they have largely been offset by the international recession. As a result, the fragile center-right governing coalition will face tough tests on its wage policies and on rising unemployment. <sup>25X1</sup>

Structural problems, especially in the textile and steel industries, continue to dampen growth prospects. Moreover, continuing regional differences between Walloons and Flemings are holding up needed reforms. <sup>25X1</sup>

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	74.1	89.4	85.5**	89.8
Imports of Goods and Services	76.3	93.3	90.1**	93.7
Balance of Goods and Services	-2.2	-3.9	-4.6**	-3.9
Current Account Balance	-3.0	-5.2	-5.3**	-4.9
Long-Term Capital	0.5	4.0	4.3**	4.6
Total Reserves Minus Gold (yearend)	5.4	7.8	4.9	3.8

\* Projected

\*\* Estimated

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NORWAY: GENERAL ECONOMIC DATA

Population (1981): 4.10 Million GDP Purchaser's Value/Capita: \$13,950

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	41.2	49.3	57.2	63.0
GDP (Constant Prices - % Change by Year)	4.5	3.6	0.7	0
Cost-of-Living Index (1975 = 100)	135	150	170	187

The Norwegian economy is in a period of stagnation. Real GNP rose only 0.7 percent in 1981 and prospects for 1982 and 1983 are dimmer. The petroleum sector, which accounts for about one-third of total exports and 15 percent of GNP, has become the mainstay of the economy. The net contribution to GNP of offshore petroleum activities and shipping in 1982, however, is expected to be a negative 1 percent due to falling oil demand and falling prices. 25X1

Prospects are somewhat better for Norway's non-oil industries but their competitiveness has been hurt by rapid rises in prices and labor costs coupled with a relatively strong currency. Devaluations of the Norwegian kroner to ease the pressure in mid-1982 were offset in part by devaluations in Finland and Sweden. 25X1

Despite slow growth, the unemployment rate is only about 2.4 percent -- one of the lowest in the OECD but high by Norwegian standards. The public sector has absorbed the greater part of new entrants to the labor force, but stagnant or declining GNP over the next several years, as well as planned cutbacks in public spending, may result in sharply increased joblessness. 25X1

Fiscal policy turned more restrictive in 1982 after several years of extremely expansive budgets. The independent Central Bank continues to restrain the growth of liquidity. The combined fiscal and monetary efforts have met some success in reducing inflation, which is running at about 11 percent this year compared with 13 percent in 1981. 25X1

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	21.4	28.3	28.7	30.0
Imports of Goods and Services	22.0	26.6	25.8	27.7
Balance of Goods and Services	-0.6	1.6	2.9	2.3
Current Account Balance	-1.0	-1.1	2.4	2.1
Long-Term Capital	2.3	-0.9	-0.9	NA
Total Reserves Minus Gold (yearend)	4.2	6.0	6.3	7.0

\*Projected

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DENMARK: GENERAL ECONOMIC DATA

Population (1981): 5.12 Million      GDP Purchaser's Value/Capita: \$11,250

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	48.7	52.7	57.6	64.8
GDP (Constant Prices - \$ Change by Year)	3.0	0.6	-0.2	2.5
Cost-of-Living Index (1975 = 100)	146	164	183	201

Although the recession has bottomed out, Denmark faces severe economic problems, centering on rising joblessness and intractable budget and current account deficits. After two years of near stagnation, GNP growth rates of 2.5 percent are forecast for both 1982 and 1983 with the primary stimulus coming from consumer spending. Investment, aside from the energy sector, has been sluggish or declining in 1982 with little hope for revival in 1983. Inflation will run at some 10 percent in 1982, a slight improvement over 1981. <sup>25X1</sup>

Unemployment is moving up inexorably with gains in labor productivity, growth of the labor force, and need for fiscal austerity exacerbating the trend. Joblessness in 1982 will average near 10 percent of the workforce. <sup>25X1</sup>

Sluggish foreign demand overall and declines in such important Danish markets as Sweden and West Germany are reversing the 1981 improvement in the trade balance. Sharp increases in interest payments on the massive and growing foreign debt will help boost the current account deficit this year, with little hope of improvement in 1983. <sup>25X1</sup>

The new center-right government has adopted a tough anti-inflationary economic policy designed to improve Denmark's international competitiveness without resorting to devaluing the currency. The program calls for wage restraint until 1985 and includes a suspension of wage indexation. Budget cuts to rein in runaway deficits will reduce unemployment pay and health and welfare benefits. <sup>25X1</sup>

<u>TRADE AND PAYMENTS (Billion \$US, BOP)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	21.2	24.2	23.2	25.5
Imports of Goods and Services	24.5	26.6	24.9	28.1
Balance of Goods and Services	-3.3	-2.5	-1.7	-2.6
Current Account Balance	-2.9	-2.5	-1.9	-2.6
Long-Term Capital	2.1	2.0	1.2	NA
Total Reserves Minus Gold (yearend)	3.2	3.4	2.5	2.1

\* Projected

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ICELAND: GENERAL ECONOMIC DATA

Population (1981): 227,000 GDP Purchaser's Value/Capita: \$13,215

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	1.2	1.9	3.0**	4.2
GDP (Constant Prices - % Change by Year)	2.9	2.8	1.3	-3.5
Cost-of-Living Index (1975 = 100)	361	559	864	1470

Real GNP is expected to drop 3 to 6 percent in 1982 under the impact of a further decline in fish production -- the foundation of the Icelandic economy. The current account deficit also is expected to worsen in 1982, again because of the poor outlook for the fishing industry, continued weak foreign demand for metals exports, and growing interest payments. The 1983 outlook for both GNP and the external account is somewhat better assuming no further declines in the fish catch and a pick-up in foreign demand for aluminum and ferrosilicon, which account for about half of nonfishing export earnings. <sup>25X1</sup>

Prices rose 55 percent last year, the same as in 1980. Government measures to hold down prices through controls have been unsuccessful. Unemployment, which is holding steady at about 0.4 percent will probably not increase markedly since slackening demand is likely to be met by reduced work hours. <sup>25X1</sup>

The government is trying to come to grips with falling GNP, swelling current account deficits, and unmanageable inflation with the emergency economic package introduced in August 1982. The package features a 13 percent devaluation of the krona against the US dollar, a partial dismantling of wage indexation, excise tax increases, and capital controls. The government is expected to follow up on the above measures with drastic cuts in state spending. Gradual depletion of the fishing grounds means economic prospects in the longer term will depend on diversification of Icelandic industry and particularly on the development of energy resources. <sup>25X1</sup>

<u>TRADE AND PAYMENTS (Billion \$US BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	1.09	1.21	1.22	1.11
Imports of Goods and Services	1.10	1.29	1.37	1.38
Balance of Goods and Services	-0.02	-0.08	-0.15	-0.27
Current Account Balance	-0.02	-0.08	-0.15	-0.27
Long-Term Capital	0.09	0.15	0.19	NA
Total Reserves minus Gold (yearend)	0.16	0.17	0.23	.16

\* Projected  
 \*\* Estimated

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SPAIN: GENERAL ECONOMIC DATA

Population (1981): 37.6 Million      GDP Purchaser's Value/Capita: \$4,960

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	142.5	164.0	186.1**	215.0
GDP (Constant Prices - % Change by Year)	0.6	1.5	0.3**	1.0
Cost-of-Living Index (1975 = 100)	198	230	263	302

Serious economic problems confront the newly elected Socialist government; a 16 percent unemployment rate is the biggest worry. GDP growth is stagnant, with construction and traditional manufacturing the most depressed sectors. The inflation rate is more than 14 percent but shows some signs of slowing. Another problem is the budget deficit which is over 4 percent of GDP and rising rapidly.

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One bright spot is a declining current account gap; strong exports and a falling oil import bill are narrowing the trade deficit. On the capital account, however, a sharp drop in private capital inflows has resulted in a significant run-down of foreign exchange reserves.

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The Socialists understand the economic constraints facing them, and an abrupt shift in policy is unlikely. The new government probably will maintain the modest efforts of its predecessor to restructure industry and implement a jobs program, but GDP growth is likely remain sluggish, keeping unemployment high. If expansionary policies are avoided, falling domestic demand and moderate wage settlements should help trim the inflation rate. Import prices, however, will continue to rise due to the rapid depreciation of the peseta. The depreciation will encourage a further improvement in the trade account, although uncertainty over the new government's intentions may reduce private transfers.

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<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	30.0	34.2	35.8	37.6
Imports of Goods and Services	30.6	41.2	42.3	42.4
Balance of Goods and Services	-0.6	-7.1	-6.5	-4.8
Current Account Balance	-1.1	-5.0	-5.0	-3.5
Long-Term Balance	3.1	4.2	4.2	3.0
Total Reserves Minus Gold (yearend)	13.2	11.9	10.8	7.7

\* Projected  
 \*\* Estimated

## CONFIDENTIAL

PORTUGAL: GENERAL ECONOMIC DATA

Population (1981): 9.93 Million GDP Purchaser's Value/Capita: \$2,377

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	16.2	19.6	23.6**	29.7
GDP (Constant Prices - % Change by Year)	4.5	5.5	2.0**	2.0
Cost-of-Living Index (1975 = 100)	234	273	327	403

GNP growth in Portugal has slowed to about 2 percent, falling well short of the government's goal. While most European countries have reduced their inflation rates in recent years, Portugal has experienced an acceleration. In the first half of this year, prices rose at a 26 percent annual rate, following an average 20 percent rise in 1981. The external accounts have also deteriorated -- hurt by the recession in European export markets -- dashing Lisbon's hopes for a reduction in the current account deficit from its \$2.6 billion level last year. The devaluation of the escudo in June and tighter credit should help some, but Portugal may have to resume negotiations with the IMF for a sizeable loan. Further austerity measures probably will be necessary to restore balance of payments equilibrium and reduce the inflation rate. 25X1

The governing Democratic Alliance and the opposition Socialists consider EC membership to be the country's top foreign policy goal. In line with EC rules, the government is working to revise the Marxist constitution to allow private companies to compete against the public sector firms, which account for about 60 percent of industrial production. The government also is trying to trim subsidies to nationalized firms and to cut the state's role in economic decisionmaking. Negotiations with the European Community are continuing. Entry is slated for 1984, but a delay until 1985 is not out of the question. 25X1

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	5.3	6.8	6.4	6.4
Imports of Goods and Services	7.9	10.9	11.9	11.8
Balance of Goods and Services	-2.5	-4.1	-5.5	-5.4
Current Account Balance	-0.1	-1.1	-2.6	-3.0
Long-Term Balance	0.7	0.7	1.2	1.1
Total Reserves Minus Gold (yearend)	0.9	0.8	0.5	0.5

\* Projected  
 \*\* Estimated

## CONFIDENTIAL

TURKEY: GENERAL ECONOMIC DATA

Population (1981): 45.6 Million      GDP Purchaser's Value/Capita: \$1,230

Total Output (Billion \$US - 1981 Exch Rate)	1979	1980	1981	1982*
GDP (Purchaser's Value - Current Prices)	18.0	36.8	54.1	71.7
GDP (Constant Prices - % Change by Year)	-0.6	-1.0	4.2	4.5
Cost-of-Living Index (1975 = 100)	392	761	1047	1361

□ Turkey continues to recover from the chaos of three years ago when triple-digit inflation and severe shortages brought the economy almost to a standstill. Turgut Ozal, author of the January 1980 stabilization program, has resigned, but the government appears to be committed to most of his policies -- austerity, greater reliance on market forces, and a push to increase exports. 25X1

□ The current account gap is continuing to shrink, aided by booming exports -- up 30 percent so far this year after a 65-percent rise in 1981 -- and a leveling-off of imports. Inflation, meanwhile, has slowed to under 30 percent. An export-led revival in manufacturing and a good harvest this year should permit a repeat of last year's 4.2-percent rise in real GDP. Tight money and weak domestic demand, however, have caused severe strains for the banking system and domestic industries. The collapse of Turkey's largest money broker last June rocked the financial sector and forced the government to step in to aid certain banks and firms. 25X1

□ If Ankara sticks with its stabilization measures, inflation and the balance of payments should continue to improve. Turkey apparently will require little or no new program aid in 1983, although project aid is still needed for infrastructure development. Difficult problems, however, still face the government: comparatively little progress has been made to date in streamlining the inefficient and overstaffed State Economic Enterprises, and rapid labor force growth will keep unemployment painfully high. Political pressure for easier credit, government aid, and protectionism will increase as the military gradually restores democracy. 25X1

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	1979	1980	1981	1982*
Exports of Goods and Services	3.2	3.9	6.2	8.1
Imports of Goods and Services**	6.5	9.6	11.2	11.8
Balance on Goods and Services**	-3.3	-5.7	-5.0	-3.7
Current Account Balance**	-1.2	-3.2	-2.1	-1.4
Long-Term Capital	-1.4	-1.6	-0.7	-0.5
Total Reserves Minus Gold (yearend)	0.8	1.3	1.3	1.4

\* Projected

\*\* After debt relief

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## CONFIDENTIAL

GREECE: GENERAL ECONOMIC DATA

Population (1981): 9.7 Million      GDP Purchaser's Value/Capita: \$3,780

Total Output (Billion \$US - 1981 Exch Rate)	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
GDP (Purchaser's Value - Current Prices)	25.8	30.9	36.7	38.6
GDP (Constant Prices - % Change by Year)	3.7	1.6	-0.5	-0.5
Cost-of-Living Index (1975 = 100)	170	213	265	334

25X1
 The troubled economy the Socialists inherited a year ago is still stagnant. Although Prime Minister Papandreou has moderated his radical campaign promises for nationalizations and renegotiation of EC membership, he has increased government spending and regulation and has granted generous wage increases. Inflation dipped only briefly in late 1981 before shooting back up to an annual rate of over 25 percent -- despite price controls on key products and the ongoing recession. Price controls, the uncertain business climate, higher taxes, and increasing labor costs have resulted in falling investment and output, and GDP could fall for the second year in a row. Unemployment has risen to 8 percent and may go higher.

25X1
 The Greek balance of payments is suffering from declines in several key areas: exports, tourism, shipping, remittances, and -- since the Socialist victory -- private capital inflows. Athens has resorted to stop-gap measures, such as draw-downs of oil and foreign exchange reserves, and growing reliance on EC aid and foreign borrowing.

25X1
 Despite a 34-percent increase in spending this year, Athens hopes to reduce its huge public sector borrowing requirement from 15 percent of GNP to 12 percent through a 56-percent increase in revenues from tax hikes and new levies. Since being named in a cabinet reshuffle last July, the new economic minister has set to work on a 5-year plan designed to restructure the economy. The plan, to be introduced at the end of the year, will call for a larger role for the public sector, but such policies are unlikely to restore competitiveness or even check Greece's slide into stagflation.

<u>TRADE AND PAYMENTS (Billion \$US, BOP Basis)</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
Exports of Goods and Services	7.7	8.4	9.3	8.9
Imports of Goods and Services	10.7	11.7	12.6	12.5
Balance of Goods and Services	-3.0	-3.3	-3.3	-3.6
Current Account Balance	-1.9	-2.2	-2.4	-2.4
Long-Term Capital	1.3	2.0	1.6	1.5
Total Reserves Minus Gold (yearend)	1.3	1.3	1.0	0.7

\* Projected

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